

Asian Macro & Market Outlook

SMAM monthly comments & views

June 2016



Sumitomo Mitsui Asset Management

Executive summary

◆ Asian Economy

The economic momentum in China is on an upward trend as April manufacturing PMI exceeded 50 for the second straight month. With steel PMI exceeding 50 for the first time in 2 years, concerns for overproduction in the steel industry grows. The Chinese government seems to try to stabilize economy through adjusting excess easing in order to stave off economic overheating. We cut the real GDP forecast for Apr-Jun and expect the volatility in the economy to be lowered. Property investment would slow down in 2Q at the earliest due to the government restrictive stance although housing boom is expanding to second tier cities.

In Asian countries, monetary easing and/or public spending have been put in place. We lowered YoY GDP forecasts of NIES4 countries, vulnerable to Chinese economy, to +1.9% in 2016 and +1.8% in 2017, while maintaining our view that ASEAN4 economies would bottom out thanks to stimulus measures. In most of Asian countries, key risks are that (a) downward pressure mounts on Chinese economy to prompt capital outflows and depreciation in RMB and (b) heightened US rate hike expectation leads to unrest in financial markets.

◆ Asian Stock Markets

We expect the stock market will recover gradually in tandem with the growth of corporate earnings given the moderate recovery of global economy and normalized valuation level.

- ✓ Macro economy in most of Asian countries will show some recovery in 2016, but the momentum is not so strong. Although Chinese economy will continue to slow down gradually, however policy support is expected to avoid hard landing.
- ✓ The recovery of corporate earnings will be moderate towards 2016 as overall global economy stabilizes.
- ✓ Concerns for tighter liquidity conditions across Asia due to US rate hike continue, but it seems to be mostly priced in.
- ✓ Still many uncertainties in markets including US rate hike, Chinese economy, crude oil price and geopolitical issues, which can create high volatility in the near term, yet we consider the market will go up slightly in line with corporate earnings as these risk factors diminish or priced in.

Outlook for Economy in China

SMAM Economic Outlook for China

Projection Table

China	YoY[%]			YoY[%]									
	2015	2016	2017	2015				2016				2017	
				Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun
Real GDP	6.9	6.6	6.3	7.0	7.0	6.9	6.8	6.7	6.6	6.5	6.4	6.3	6.3
<i>Previous</i>	6.9	6.6	6.3	7.0	7.0	6.9	6.8	6.7	6.7	6.5	6.4	6.3	6.2
Real GDP qqar on seasonally adjusted basis	6.9	6.6	6.3	5.8	7.6	7.4	6.3	4.6	7.3	6.8	5.8	5.1	7.2
<i>Previous</i>	6.9	6.6	6.3	5.5	7.5	7.5	6.6	5.1	7.4	6.8	6.3	4.7	7.1
Compiled Growth Tracker	6.0	5.5	5.1	6.3	6.3	5.8	5.7	5.6	5.5	5.4	5.3	5.1	5.1
<i>Previous</i>	6.0	5.5	5.1	6.3	6.3	5.8	5.7	5.6	5.6	5.4	5.3	5.1	5.1
Real GDP Consumption	9.1	8.3	8.2	-	-	-	-	-	-	-	-	-	-
<i>Previous</i>	9.1	8.2	8.2	-	-	-	-	-	-	-	-	-	-
Real GDP Investment	5.3	4.9	4.4	-	-	-	-	-	-	-	-	-	-
<i>Previous</i>	5.3	4.9	4.4	-	-	-	-	-	-	-	-	-	-
Real GDP Net export (contribution)	▲0.2	▲0.0	▲0.1	-	-	-	-	-	-	-	-	-	-
<i>Previous</i>	▲0.2	0.0	▲0.0	-	-	-	-	-	-	-	-	-	-
Nominal GDP	6.4	6.8	5.9	6.6	7.0	6.2	6.0	7.2	7.0	6.8	6.4	6.2	5.8
<i>Previous</i>	6.4	6.8	5.9	6.6	7.1	6.2	6.0	6.1	6.2	6.0	6.0	5.9	5.8
GDP deflator	▲0.4	0.3	▲0.4	▲0.4	▲0.0	▲0.7	▲0.7	0.5	0.4	0.3	0.0	▲0.1	▲0.5
<i>Previous</i>	▲0.4	▲0.4	▲0.4	▲0.3	0.1	▲0.7	▲0.2	▲0.6	▲0.5	▲0.5	▲0.5	▲0.4	▲0.4
Industrial production	6.1	5.6	5.2	6.4	6.3	5.9	5.9	5.8	5.6	5.5	5.4	5.3	5.3
<i>Previous</i>	6.1	5.5	5.2	6.4	6.3	5.9	5.9	5.6	5.6	5.5	5.4	5.3	5.3
CPI inflation	1.4	2.2	1.1	1.2	1.4	1.7	1.5	2.1	2.4	2.3	1.9	1.6	0.9
<i>Previous</i>	1.4	2.4	1.2	1.2	1.4	1.7	1.5	2.1	2.6	2.6	2.1	1.9	1.0
Base lending interest rate	4.35	4.35	4.10	5.35	4.85	4.60	4.35	4.35	4.35	4.35	4.35	4.35	4.10
<i>Previous</i>	4.35	4.10	3.85	5.35	4.85	4.60	4.35	4.35	4.35	4.35	4.10	4.10	3.85

Historical Record of amendment (GDP)

Date of amendment	YoY[%]			YoY[%]									
	2015	2016	2017	2015				2016				2017	
				Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun
16.05.18 latest	6.9	6.6	6.3	7.0	7.0	6.9	6.8	6.7	6.6	6.5	6.4	6.3	6.3
16.04.18	6.9	6.6	6.2	7.0	7.0	6.9	6.8	6.7	6.8	6.6	6.3	6.2	6.1
16.04.14 last month meeting	6.9	6.6	6.3	7.0	7.0	6.9	6.8	6.7	6.7	6.5	6.4	6.3	6.2

Source: SMAM Economic Research Department, Previous= Last month meeting's projection

Note: Arrows illustrate the direction of the change from last time prediction

As of 20 May 2016

Source: CEIC, compiled by SMAM

SMAM Economic Outlook for China

China manufacturing PMI (official)

(neutral=50)

	Manufacturing PMI	New orders	Production	Employment	Delivery times	Raw materials inventory	New exports orders	Finished goods inventory	Imports	Backlogs of work	Purchase volume	Input prices
Apr-15	50.1	50.2	52.6	48.0	50.4	48.2	48.1	48.0	47.8	43.8	50.1	47.8
May-15	50.2	50.6	52.9	48.2	50.9	48.2	48.9	47.5	47.6	44.7	51.0	49.4
Jun-15	50.2	50.1	52.9	48.1	50.3	48.7	48.2	47.7	48.0	44.6	50.9	47.3
Jul-15	50.0	49.9	52.4	48.0	50.4	48.4	47.9	47.4	47.8	44.0	50.3	44.7
Aug-15	49.7	49.7	51.7	47.9	50.6	48.3	47.7	47.2	47.2	44.6	49.4	44.9
Sep-15	49.8	50.2	52.3	47.9	50.8	47.5	47.9	46.8	48.1	43.8	48.6	45.8
Oct-15	49.8	50.3	52.2	47.8	50.6	47.2	47.4	47.2	47.5	44.4	48.8	44.4
Nov-15	49.6	49.8	51.9	47.6	50.6	47.1	46.4	46.7	46.7	43.0	48.3	41.1
Dec-15	49.7	50.2	52.2	47.4	50.7	47.6	47.5	46.1	47.6	43.6	50.3	42.4
Jan-16	49.4	49.5	51.4	47.8	50.5	46.8	46.9	44.6	46.4	43.4	49.0	45.1
Feb-16	49.0	48.6	50.2	47.6	49.8	48.0	47.4	46.4	45.8	43.9	47.9	50.2
Mar-16	50.2	51.4	52.3	48.1	51.3	48.2	50.2	46.0	50.1	45.7	52.6	55.3
Apr-16	50.1	51.0	52.2	47.8	50.1	47.4	50.1	45.5	49.5	44.8	51.0	57.6

Note: Manufacturing PMI is composed of items above from New orders to Raw materials inventory.

China Steel PMI

(neutral=50)

	Steel PMI	New orders	Production	Raw materials inventory	New exports orders	Finished goods inventory	Input prices
Apr-15	48.2	49.2	49.4	45.0	40.0	50.8	31.1
May-15	42.4	37.6	40.7	42.5	43.7	50.3	43.2
Jun-15	37.4	27.9	34.2	42.5	50.7	55.1	40.1
Jul-15	41.0	36.6	41.0	41.3	56.1	51.1	32.2
Aug-15	44.7	39.9	47.5	42.1	54.5	49.8	48.2
Sep-15	43.7	40.7	44.6	44.0	40.7	49.3	39.2
Oct-15	42.2	37.9	43.1	41.6	39.3	45.7	29.4
Nov-15	37.0	29.7	35.4	33.4	41.2	49.2	24.6
Dec-15	40.6	40.9	38.5	35.7	47.8	39.5	26.0
Jan-16	46.7	49.9	45.6	44.5	50.7	34.4	38.8
Feb-16	49.0	50.9	49.5	51.1	46.2	44.8	49.9
Mar-16	49.7	53.3	49.8	52.6	36.9	37.7	63.2
Apr-16	57.3	65.6	60.4	54.6	52.5	34.9	75.3

Note: As Steel PMI components, items above from New orders to Raw materials inventory are released.

Source: CEIC, compiled by SMAM

As of 18 May 2016

SMAM Economic Outlook for China

Summary

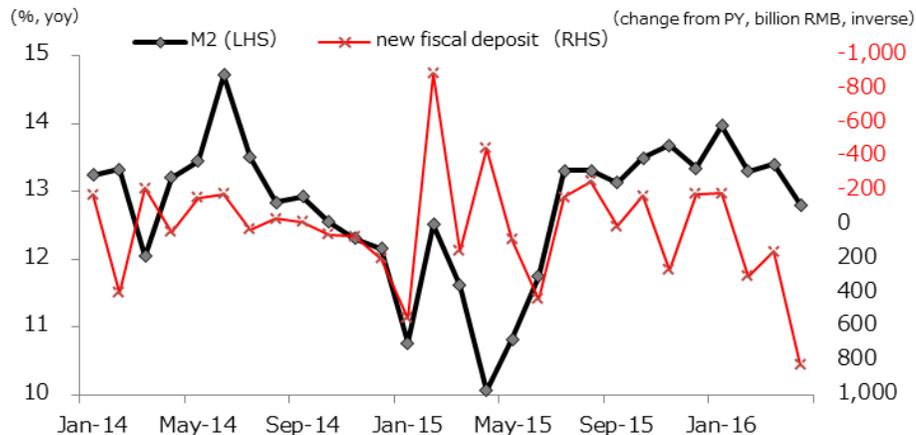
- We have revised down YoY GDP growth outlook to +6.6% from +6.7% for 2Q16, as the government has started to adjust excessively accommodative policy stance towards normalization.
- On People's Daily Newspaper, the top ranked party members criticized the leveraged economy and insisted on supply-side reform in People's Daily Newspaper.
- We believe that the government should take accommodative stance again in a case of unexpectedly worsening economy to stabilize the economy.
- Weaker than expected major economic indicators for April came in mainly due to shift of policy stance to neutral from excessively accommodative.
- We see downside risk to economy, as not only the shift of policy stance but also capital stock adjustment may trigger economic slowdown.

Note: Economy outlook is as of 18 May 2016

China: Highlights of Chinese economy

- M2 growth for April was released at +12.8% YoY, below the market expectation of +13.5% and official target of +13.0%.
- The government seems to fine tune the monetary policy and fiscal policy stance. On May 11, the Vice Premier Zhang Gaoli stated at the OECD forum in Beijing that China would (a) reduce leverage level in the economy, (b) not resort to large-scale stimulus, and (c) be able to meet its growth target for 2016, while a pace of M2 money supply increase slowed in April.

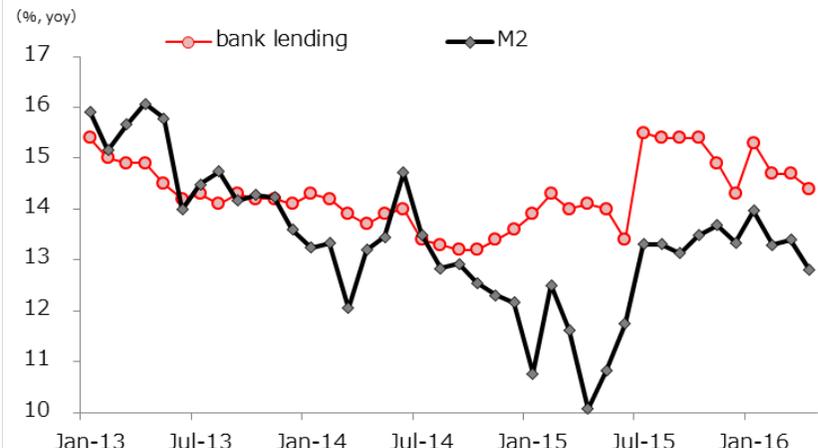
China M2 & Fiscal Deposit



Source: CEIC, compiled by SMAM

Up to April 2016

China Money Statistics

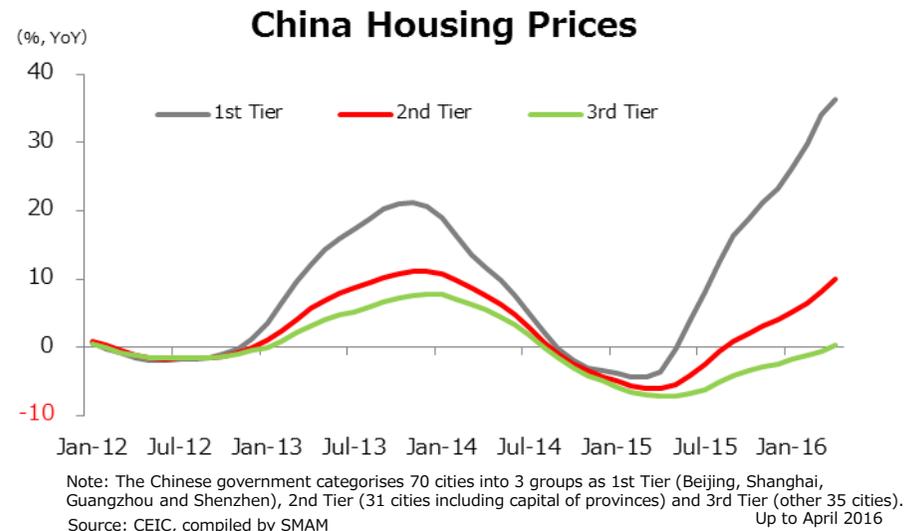
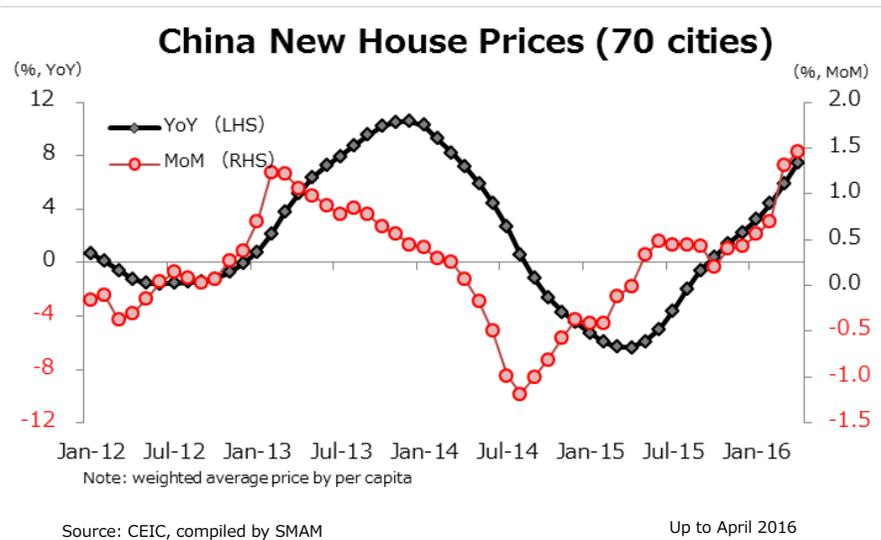


Note: Data of housing prices for low income group is not included
Source: CEIC, compiled by SMAM

Up to April 2016

China: Highlights of Chinese economy

- The average price of new homes rose in 65 out of 70 cities in April, up from 62 recorded in March (except for low-income housing). On a MoM basis, a weighted average price of new homes in 70 cities increased 1.45% in April, up from 1.31% in March.
- The rise in housing prices is expanding to local cities from Tier1 cities. That price in Shenzhen which experienced rapid gain early this year slowed to +2.3% MoM in April from +3.7% MoM in March. As China has been shifting to restrictive stance with an aim of staving off a bubble, property investment would face a downturn in May at the earliest.
- However, crackdown on properties has not fully covered speculative schemes such as illegal housing loans. The rise in house prices would continue, yet the pace would be slower. The government should consider the way to soft landing of home prices, because housing property are essential asset for households.



China: Highlights of Chinese economy

- Lower-than-expected Industrial Production (IP) for April came in at +6.0% YoY. IP numbers on a seasonally adjusted annual rate (saar) basis also retreated to +0.47% MoM (+5.8% YoY) in April from +0.63% MoM (+7.8% YoY) in March. The downturn was driven by mining and steel sectors due to rising input costs, as China's IP is calculated on a value-added basis. However, the amount of steel products in April showed a drop comparing to that in March, thus the accuracy of the data should be doubtful.
- Jan-Apr Fixed Asset Investment (FAI) was +10.5% YoY, below the market expectation of +11.0%. That in April slowed to +10.1% YoY from +11.2% in the previous month. While FAI of state enterprises in April dropped to +24.3% YoY from +25.9% in March, figures in private sector also sagged to +2.8% YoY in April. April retail sales was released at +10.1% YoY, lower than market projection.

IP Growth

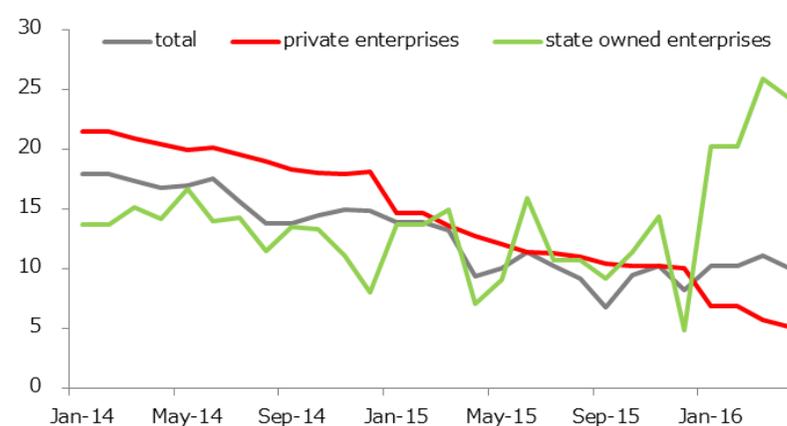
(%, yoy)

	Oct	Nov	Dec	Jan	Feb	Mar	Apr
industrial production (IP)	5.6	6.2	5.9	5.4	5.4	6.8	6.0
IP saar	6.4	6.9	5.4	5.5	4.9	7.8	5.8
mining	0.4	0.3	1.4	1.5	1.5	3.1	0.1
fabricated metal production	6.7	7.2	6.2	8.2	8.2	8.2	9.3
ferrous metal smelting & pressing	5.6	7.0	5.2	4.0	4.0	3.3	-0.3
non-ferrous metal smelting & pressing	12.1	11.8	11.7	10.2	10.2	8.9	11.0
chemical product	9.5	8.5	9.1	8.6	8.6	8.9	10.0
automobile	7.3	13.0	12.0	8.1	8.1	11.4	12.1

(note) value-added basis

China Fixed Asset Investment (single month)

(%, YoY)



Source: CEIC, compiled by SMAM

Up to April 2016

Source: CEIC, compiled by SMAM

Up to April 2016

Outlook for Asian Economy

SMAM Economic Outlook for Asia

Projection Table

Real GDP	YoY[%]			YoY[%]									
	2015	2016	2017	2015				2016				2017	
				Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun
India	7.5	7.7	7.8	6.7	7.6	7.7	7.3	7.6	7.7	7.8	7.8	7.6	7.7
Previous	7.5	7.5	7.7	6.7	7.6	7.7	7.3	7.6	7.6	7.6	7.8	7.1	7.7
NIEs4	2.1	1.9	1.8	2.8	1.9	1.8	2.0	1.6	2.0	1.9	1.9	1.8	1.7
Previous	2.1	2.0	2.0	2.8	1.9	1.8	2.0	1.7	2.2	2.0	2.1	2.0	2.1
Korea	2.6	2.5	2.4	2.4	2.2	2.8	3.1	2.7	2.9	2.3	2.2	2.3	2.2
Previous	2.6	2.5	2.5	2.4	2.2	2.8	3.1	2.6	2.9	2.2	2.4	2.5	2.7
Taiwan	0.7	0.8	0.9	4.0	0.6	▲0.8	▲0.5	▲0.8	0.8	1.7	1.4	0.9	0.9
Previous	0.7	0.8	1.1	4.0	0.6	▲0.8	▲0.5	▲0.7	0.8	1.6	1.4	1.1	1.1
Singapore	2.0	1.7	1.6	2.7	1.7	1.8	1.8	1.8	1.6	1.8	1.8	1.6	1.6
Previous	2.0	1.8	1.8	2.7	1.7	1.8	1.8	1.4	1.8	1.9	2.0	1.7	1.8
Hongkong	2.4	0.8	0.7	2.4	3.1	2.3	1.9	0.8	0.6	0.7	1.1	0.8	0.8
Previous	2.4	1.7	1.7	2.4	2.9	2.2	1.9	1.6	1.7	1.6	1.9	1.8	1.7
ASEAN4	4.6	4.7	4.8	4.6	4.5	4.5	4.7	4.7	4.7	4.7	4.7	4.8	4.7
Previous	4.6	4.6	4.8	4.6	4.5	4.5	4.7	4.6	4.6	4.7	4.7	4.8	4.8
Indonesia	4.8	5.1	5.3	4.7	4.7	4.7	5.0	4.9	5.1	5.3	5.3	5.4	5.3
Previous	4.8	5.1	5.3	4.7	4.7	4.7	5.0	5.1	5.1	5.3	5.3	5.4	5.2
Thailand	2.8	2.9	3.0	3.0	2.7	2.9	2.8	3.2	2.7	2.7	2.8	2.9	2.9
Previous	2.8	2.7	3.2	3.0	2.7	2.9	2.8	2.6	2.7	2.7	2.7	3.1	3.1
Malaysia	5.0	4.3	4.5	5.7	4.9	4.7	4.5	4.2	4.1	4.4	4.6	4.6	4.6
Previous	5.0	4.5	4.6	5.7	4.9	4.7	4.5	4.2	4.5	4.6	4.6	4.6	4.6
Philippines	5.9	6.5	5.9	5.0	5.8	6.1	6.3	6.9	6.9	6.3	6.1	6.0	5.7
Previous	5.8	6.1	6.0	5.0	5.8	6.1	6.3	6.2	6.2	6.0	5.9	5.9	6.0

Source: SMAM Economic Research Department, Previous= Last month meeting's projection

Note: Arrows illustrate the direction of the change from last time prediction

As of 20 May 2016

SMAM Economic Outlook for Asia

Projection Table

CPI		YoY[%]			YoY[%]									
		2015	2016	2017	2015				2016				2017	
					Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun
India	Previous	4.9	5.5	5.6	5.3	5.1	3.9	5.3	5.3	5.3	5.6	5.3	5.5	5.4
NIEs4	Korea	0.7	1.2	1.6	0.6	0.5	0.7	1.1	1.0	0.9	1.3	1.6	1.6	1.6
	Taiwan	▲0.3	0.8	1.1	▲0.6	▲0.7	▲0.3	0.3	1.7	0.3	0.7	0.9	0.9	1.3
	Singapore	▲0.5	▲0.1	0.7	▲0.3	▲0.4	▲0.6	▲0.7	▲0.8	▲0.3	0.1	0.5	0.7	0.7
	Hong Kong	3.0	2.5	1.7	4.3	2.9	2.5	2.3	2.8	2.8	2.5	2.1	1.7	1.7
	ASEAN4	6.4	4.1	4.4	6.5	7.1	7.1	4.8	4.3	3.9	3.8	4.2	4.1	4.6
ASEAN4	Indonesia	6.4	4.1	4.4	6.5	7.1	7.1	4.8	4.3	3.9	3.8	4.2	4.1	4.6
	Thailand	▲0.9	0.3	1.2	▲0.5	▲1.1	▲1.1	▲0.9	▲0.5	0.1	0.6	1.2	1.6	1.2
	Malaysia	2.1	2.7	2.4	0.7	2.2	3.0	2.6	3.4	2.7	2.1	2.0	2.6	2.6
	Philippines	1.4	1.8	2.7	2.4	1.7	0.6	1.0	1.1	1.7	2.2	2.2	2.4	2.8

Policy Rate		Annual rate[%]			Annual rate[%]									
		2015	2016	2017	2015				2016				2017	
					Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun
India	Previous	6.75	6.50	6.50	7.50	7.25	6.75	6.75	6.75	6.50	6.50	6.50	6.50	6.50
NIEs4	Korea	1.50	1.25	1.25	1.75	1.50	1.50	1.50	1.50	1.50	1.50	1.25	1.25	1.25
	Taiwan	1.625	1.375	1.375	1.875	1.875	1.750	1.625	1.500	1.375	1.375	1.375	1.375	1.375
	Singapore	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
	Hong Kong	0.75	#N/A	#N/A	0.50	0.50	0.50	0.75	0.75	#N/A	#N/A	#N/A	#N/A	#N/A
ASEAN4	Indonesia	7.50	6.75	6.75	7.50	7.50	7.50	7.50	6.75	6.75	5.50	5.50	5.50	5.50
	Thailand	1.50	1.25	1.25	1.75	1.50	1.50	1.50	1.50	1.50	1.50	1.25	1.25	1.25
	Malaysia	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
	Philippines	4.000	4.000	4.0	4.000	4.000	4.000	4.000	4.000	3.000	3.000	3.000	3.000	3.000

Source: SMAM Economic Research Department, Previous= Last month meeting's projection

Note: Arrows illustrate the direction of the change from last time prediction

As of 18 May 2016

SMAM Economic Outlook for Asia

Summary

- We revised down our real GDP growth forecasts of NIES4 to +1.9% YoY from +2.0% YoY for 2016 and to +1.8% YoY from +2.0% YoY for 2017.

- However, we maintain our view that the ASEAN4's economy has bottomed out thanks to their accommodative policies.

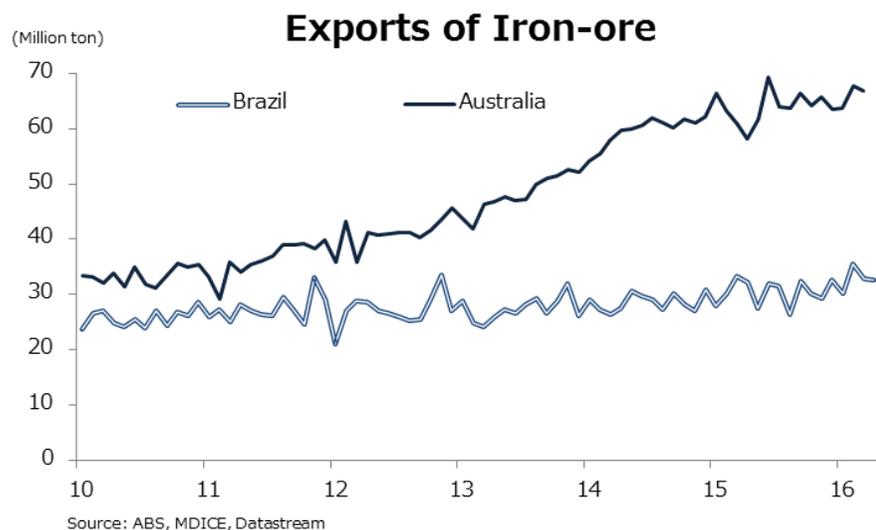
- As for India's economy, we revised up our real GDP growth outlook to +7.7% YoY from +7.5% YoY for 2016 and to +7.8% YoY from +7.7% YoY for 2017 mainly for the two reasons.
 - ✓ Under the mild inflation environment, wage increase affected by the recommendation of 7th pay commission should boost the consumption expenditure.
 - ✓ Legislation of Insolvency and Bankruptcy code should attract investment at a faster pace with shortening the bankruptcy proceedings and increasing transparency.

- Lower policy interest rates in Indonesia and the Philippines do not necessarily mean additional easing, as the two central banks will change the policy frame work including policy rates.

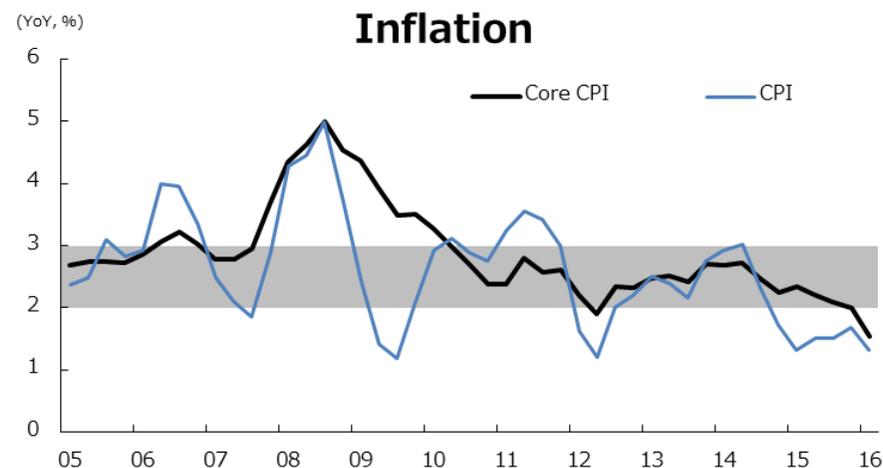
Note: Economy outlook is as of 18 May 2016

Australia

- We slightly raised the GDP growth forecast for 2016 to +2.5% YoY on improved exports to China. Meanwhile we cut the growth for 2017 to +2.6% YoY from +2.7% YoY on dismal outlook for Chinese economy.
- The number of total employments gained by 10,800 but below the consensus of 12,000. The unemployment rate unchanged with +5.7% in April. We foresee the unemployment rate to keep a moderate declining trend in the second half of 2016 led by economic upturn.
- CPI is expected to remain flat or rise slightly toward mid-2017. The uptick would be supported by bottoming out of wage and oil prices.
- The Reserve Bank of Australia (RBA) cut the cash rate by 25bp to 1.75% in the Monetary Policy Committee (MPC) held on May 4 due to disappointing CPI in Jan-Mar. We stay with our expectation that RBA holds the current cash rate until end-2017. Yet, a possibility of rate cut remains considering the low inflation environment.



Up to April 2016

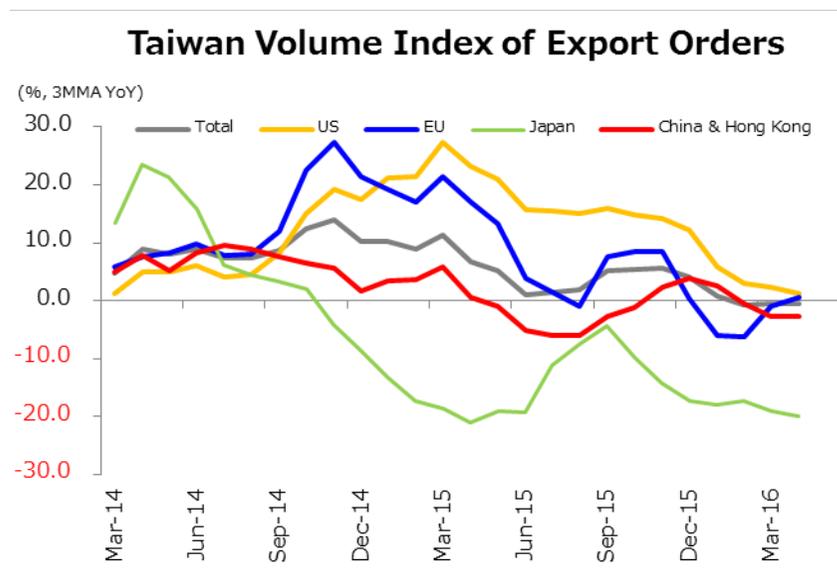


Note: Inflation target of RBA is +2.0-3.0% YoY. Core CPI is the average of trimmed and weighted mean.
Source: ABS, Datastream

Up to April 2016

Hong Kong and Taiwan

- We revised down Taiwan's real GDP for 2017 to +0.9% YoY from +1.1% YoY as we believe that anemic economic growth should continue on cooling cross-strait interactions.
- Uncertainties on future cross-strait relations grew after Taiwan's new president, Tsai Ing-wen made an inaugural address on May 20. In her speech, Ms. Tsai did not recognize "1992 consensus" that the two nations' leaders in 1992 agreed to "One China principle" claiming both mainland China and Taiwan belong to the same China, whereas she acknowledged the history that there was the "1992 meeting". In our view, her political stance should cause resentment from China. Meanwhile, she unveiled a policy for Taiwan to join trade blocs including the Trans-Pacific Partnership aiming at reducing its heavy reliance on China's economy.
- We still hold our view that the central bank of Republic of China to take additional rate cut at June's meeting to support the economy.
- We cut real GDP growth forecast for 2016 and 2017 in Hong Kong to +0.8% YoY and +0.7% YoY respectively.

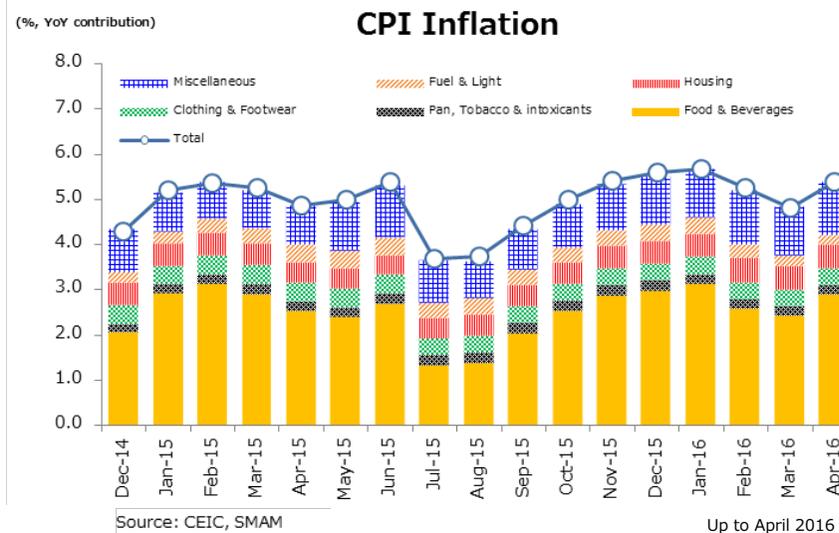
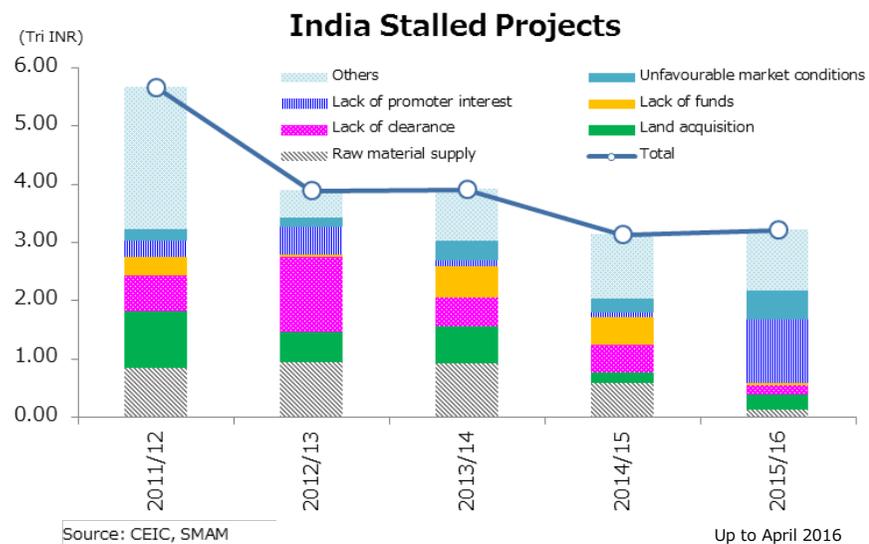


Source: CEIC, compiled by SMAM

Up to April 2016

India

- We raised real GDP outlook for 2016 to +7.7% YoY from +7.5% YoY, as well as that for 2017 to +7.8% YoY from +7.7% YoY mainly for following reasons. Firstly, under the mild inflation environment, wage increase in accordance with the recommendation of 7th pay commission should boost the consumption expenditure. Secondly, enacting the legislation of Insolvency and Bankruptcy code should promote investment and develop the credit market by speedy solution of debt problems.
- India faces severe drought caused by El Nino. As a result, April Wholesale Price Index (WPI) posted a rise (+0.34% YoY), which was the first positive print in 18 straight months. April CPI also rose to +5.4% YoY driven by escalating food prices especially vegetables.
- We expect that the Reserve Bank of India (RBI) should stay on hold the repo rate until the end of 2016, with upside risks from food inflation and the 7th pay commission.

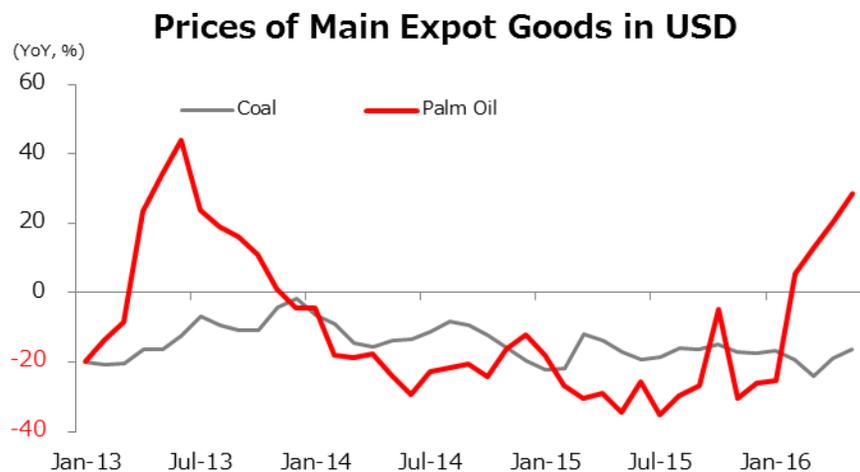


Indonesia

- Jan-Mar GDP moderated to +4.9% YoY from +5.0% YoY in the previous quarter on declines in public consumption and gross fixed capital formation, which was dragged down by slowing private investment. However, April Nikkei manufacturing PMI* was 50.9, rising from 50.6 in March. In addition, the contribution rate of domestic demand accelerated to +4.6ppt. Accordingly, we keep our view that the economy would recover moderately with the growth of +5.1% YoY in 2016 and +5.3% YoY in 2017.

*Indonesia's PMI developed by Japan's Nikkei and Non-Japanese data provider.

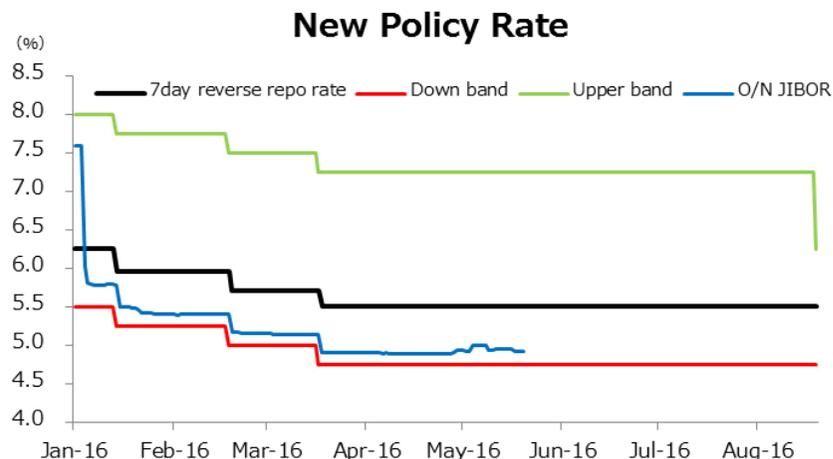
- Bank Indonesia (BI) left key policy rates unchanged in May after monetary easing early in this year. We lowered the policy rate forecast to 5.50% by 125bp since 19 Aug as BI adopted new policy rate. However, the change does not mean shift to easing policy.



Note: Palm oil price and coal price are showed in USD/kg and USD/MT.

Source: CEIC, SMAM

Up to May 2016



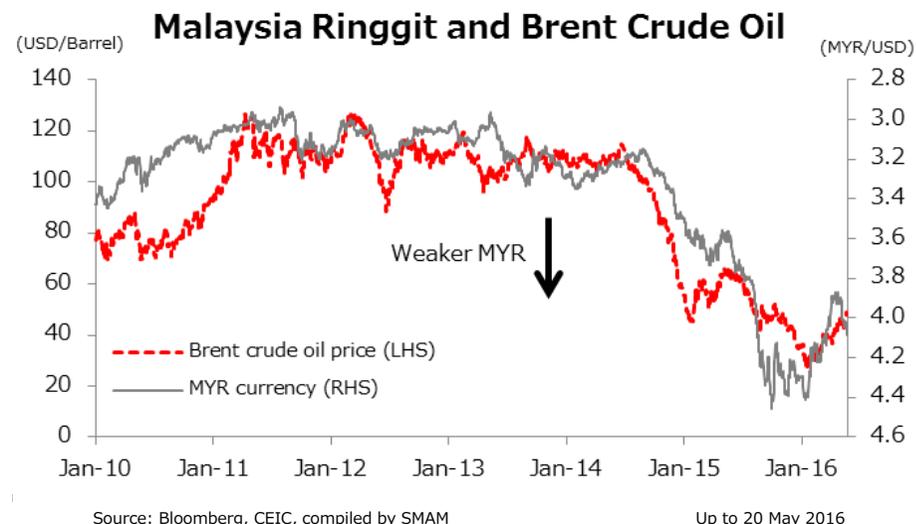
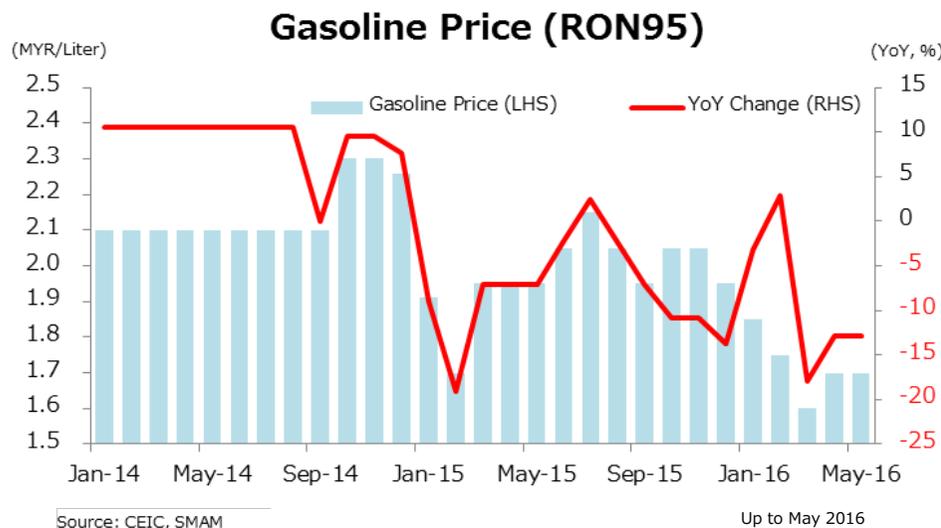
Note: New policy rate will be applied from August 19.

Source: CEIC, SMAM

Up to May 2016

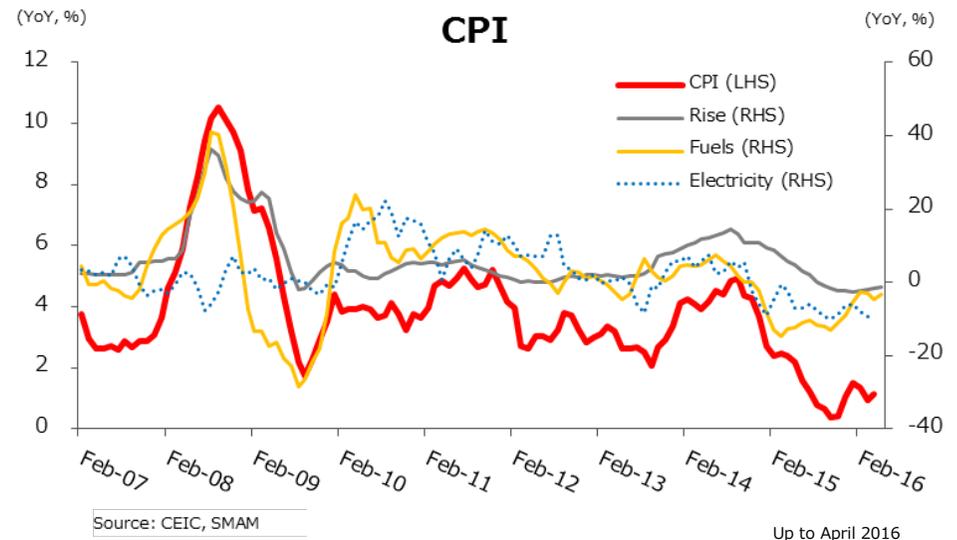
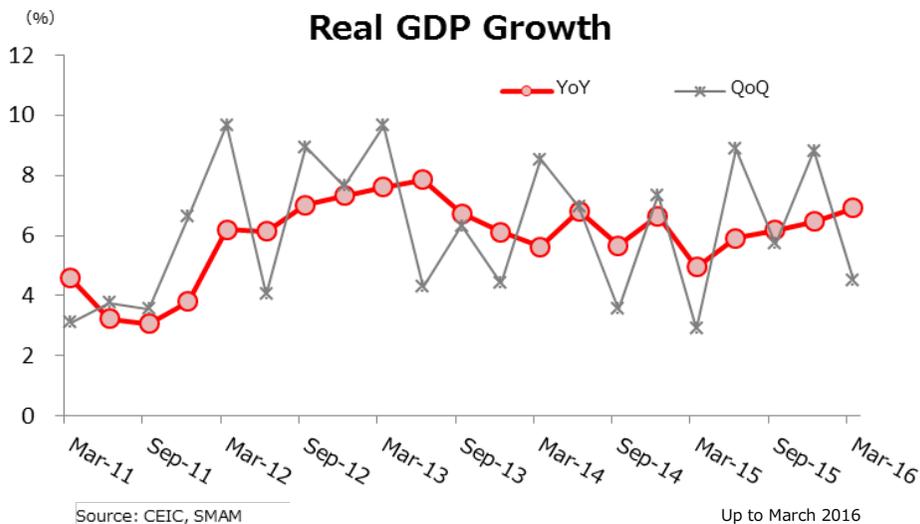
Malaysia

- Jan-Mar GDP growth rate came in at +4.2% YoY, down from +4.5% YoY in the previous quarter. The breakdown of the GDP figure shows that private consumption accelerated to +5.3% YoY from +4.9% in the previous quarter despite the base effects of the last year's pre-GST hike rush demand. On another front, the gross fixed investment deteriorated to +0.1% YoY from +2.7% YoY.
- We revised down real GDP growth outlook for 2016 to 4.3% from +4.5% on weaker than expected investment condition. In our view, the government can achieve the projected economic growth between 4.0% and 4.5% by the use of "off-budget" to sustain the economy.
- At the Monetary Policy Committee in May, Bank Negara Malaysia (BNM) decided to maintain the current Overnight Policy Rate (OPR) at 3.25%. We still stay with our view that BNM should keep OPR unchanged until the end of 2017.



Philippines

- We revised up real GDP forecast for 2016 to +6.5% YoY from +6.1% YoY following the high GDP growth in Jan-Mar. The 1Q GDP growth rate rose to +6.9% YoY from +6.5% in the previous quarter driven by private consumption (+7.0% YoY) and investment growth (+25.6% YoY). The consumption growth was mainly due to the Presidential election on May 9. Accordingly, we believe that the economic momentum should lose steam in the second half of 2016, after the election-related spree.
- Under the new president-elect Rodrigo Duterte's administration, the economy should face downside risk, if his incoming anti-corruption policy causes conflict with the military. However, if his expected pro-China policy attracts further funds for infrastructure development from China, the economy is expected to enjoy upturn.
- We lowered the policy rate forecast to 3.00% by 100bp since June 3 due to change in policy framework. This change does not mean shift to easing policy.



Singapore

- Since its exports exceed total GDP, Singapore economy is sensitive to other Asian economies, particularly to China. In our view, Singapore's economic growth would continue to decelerate as China's slowing economy in 2016. Accordingly, we revised down real GDP forecasts for both 2016 and 2017.
- Furthermore, the weak economy in Malaysia, an important trading partner for Singapore, may drag down the exports. Looking at Industrial Production (IP), biomedical output remains volatile. Thus, we take a careful attention to the IP numbers as upside and downside risks.

Real GDP Growth (YoY, %)

	1Q15	2Q15	3Q15	4Q15	1Q16
Real GDP	2.7	1.7	1.8	1.8	1.8
Manufacturing	-2.9	-5.2	-6.0	-6.7	-2.0
Construction	-1.6	3.6	3.0	4.9	6.2
Service	4.3	3.2	3.4	2.8	1.9

Real GDP Growth (QoQ, %)

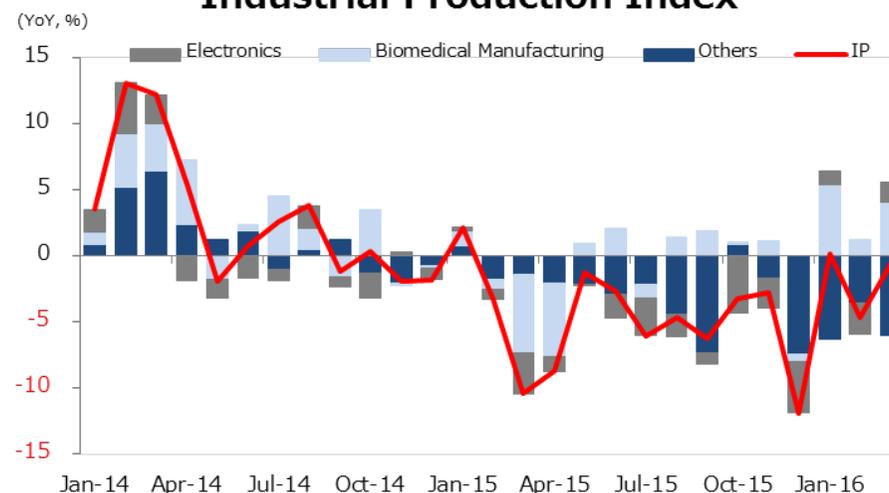
	1Q15	2Q15	3Q15	4Q15	1Q16
Real GDP	0.2	-1.6	2.3	6.2	0.0
Manufacturing	-3.5	-13.8	-6.0	-4.9	18.2
Construction	6.7	7.7	0.2	6.0	10.2
Service	-0.4	0.4	3.8	7.7	-3.8

Note: Historical data on an annual basis.

Source: CEIC, SMAM

Up to 1Q 2016

Industrial Production Index

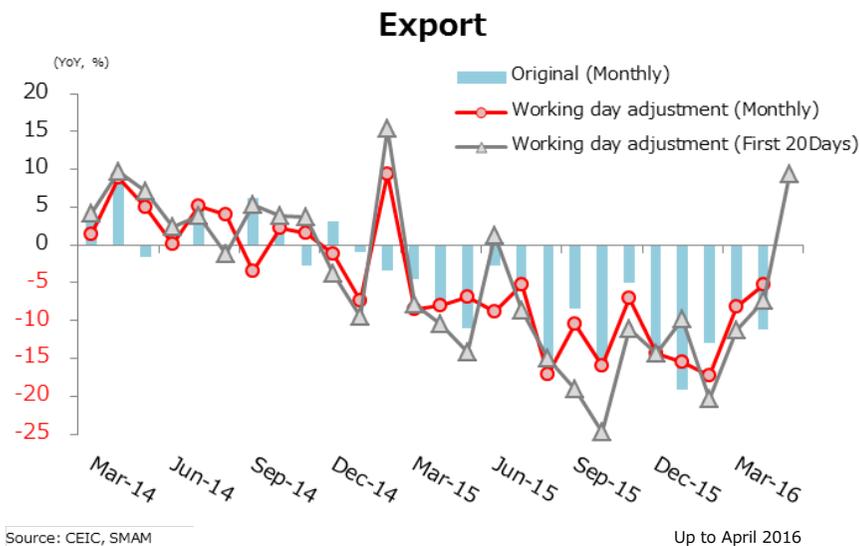


Source: CEIC, SMAM

Up to March 2016

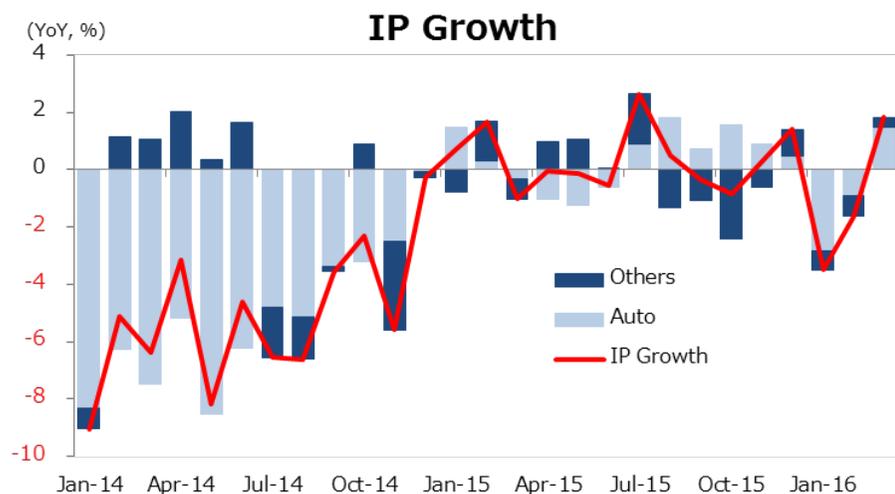
South Korea

- With positive trend toward economic recovery in China, Korea's exporting data in May showed positive signs for the first time in 11 months. Therefore, we consider that the export has bottomed out and manufacturing PMI is also recovering. Yet, as for real GDP growth in 2017, we slightly revised down to +2.4% YoY as the economic momentum seems to slow down in later half of 2016 due to decelerated China's economy.
- The unemployment rate in April improved to 3.7% from 3.8% but contributed by a decline in participation rate, which means more people gave up job-hunting. The jobless rates of job seekers aged 15-19 and aged 20-29 improved slightly but still stand at high of 12.5% and 9.8% respectively.
- In the MPC meeting held on May, the Bank of Korea (BOK) left the policy rate at 1.50% unchanged in line with market expectation. The statement was almost same as the last one except for adding a comment about corporate restructuring. We maintain our view that the BOK should cut the repo rate in Oct-Dec 2016.



Thailand

- Stronger-than-projected Jan-Mar GDP was released at +3.2% YoY, rising from +2.8% YoY in the previous quarter. The Thai economy enjoyed growing tourism-linked industries despite negative effects on agriculture and manufacturing sectors by harsh weather and car tax hike. However, we suppose the growth supported by tourism is not sustainable.
- We revised upwardly real GDP forecast for 2016 to 2.9% YoY on stable economic growth in Jan-Mar and Oct-Dec, meanwhile we cut that for 2017 to 3.0% YoY.
- The Bank of Thailand (BOT) would take additional rate cut in Oct-Dec as BOT still adopts a cautious stance about downside risk such as sluggish individual spending due to drought occurrence.



Source: CEIC, SMAM

Up to March 2016



Source: CEIC, SMAM

Up to March 2016

Outlook for Asian Stock Markets

Stock Market Performance - Global

Indices as of 31 May 2016	Px Last	Mtd	Qtd	Ytd	3m	1yr	2yr	3yr
S&P 500 INDEX	2,096.96	1.5%	1.8%	2.6%	8.5%	-0.5%	9.0%	28.6%
DOW JONES INDUS. AVG	17,787.20	0.1%	0.6%	2.1%	7.7%	-1.2%	6.4%	17.7%
NASDAQ COMPOSITE INDEX	4,948.06	3.6%	1.6%	-1.2%	8.6%	-2.4%	16.6%	43.2%
STOXX Europe 50 € Pr	2,907.45	1.8%	4.2%	-6.2%	3.9%	-15.6%	-4.1%	6.0%
NIKKEI 225	17,234.98	3.4%	2.8%	-9.5%	7.5%	-16.2%	17.8%	25.1%
TOPIX	1,379.80	2.9%	2.4%	-10.8%	6.3%	-17.6%	14.8%	21.5%
BRAZIL BOVESPA INDEX	48,471.71	-10.1%	-3.2%	11.8%	13.3%	-8.1%	-5.4%	-9.4%
RUSSIAN RTS INDEX \$	904.33	-4.9%	3.2%	19.5%	17.6%	-6.7%	-30.2%	-32.1%
BSE SENSEX 30 INDEX	26,667.96	4.1%	5.2%	2.1%	15.9%	-4.2%	10.1%	35.0%
HANG SENG INDEX	20,815.09	-1.2%	0.2%	-5.0%	8.9%	-24.1%	-9.8%	-7.0%
HANG SENG CHINA AFF.CRP	3,609.50	-3.7%	-4.3%	-10.9%	5.8%	-30.3%	-15.4%	-17.3%
HANG SENG CHINA ENT INDX	8,704.90	-2.6%	-3.3%	-9.9%	10.0%	-38.3%	-15.1%	-17.9%
CSI 300 INDEX	3,169.56	0.4%	-1.5%	-15.0%	10.2%	-34.5%	47.0%	21.6%
TAIWAN TAIEX INDEX	8,535.59	1.9%	-2.4%	2.4%	1.5%	-12.0%	-6.0%	3.4%
KOSPI INDEX	1,983.40	-0.5%	-0.6%	1.1%	3.5%	-6.2%	-0.6%	-0.9%
STRAITS TIMES INDEX	2,791.06	-1.7%	-1.8%	-3.2%	4.7%	-17.7%	-15.3%	-15.7%
FTSE Bursa Malaysia KLCI	1,626.00	-2.8%	-5.3%	-3.9%	-1.7%	-7.0%	-13.2%	-8.1%
STOCK EXCH OF THAI INDEX	1,424.28	1.4%	1.2%	10.6%	6.9%	-4.8%	0.6%	-8.8%
JAKARTA COMPOSITE INDEX	4,796.87	-0.9%	-1.0%	4.4%	0.5%	-8.0%	-2.0%	-5.4%
PSEi - PHILIPPINE SE IDX	7,401.60	3.4%	1.9%	6.5%	11.0%	-2.4%	11.3%	5.4%
HO CHI MINH STOCK INDEX	618.44	3.4%	10.2%	6.8%	10.6%	8.6%	10.0%	19.3%
S&P/ASX 200 INDEX	5,378.56	2.4%	5.8%	1.6%	10.2%	-6.9%	-2.1%	9.2%
NZX 50 INDEX	7,039.41	3.2%	4.3%	11.3%	13.0%	20.4%	35.9%	56.0%
MSCI World Free Local	414.03	1.4%	2.1%	-0.5%	7.2%	-6.2%	4.3%	19.7%
MSCI All Country Asia Ex Japan	616.88	0.1%	-1.0%	-1.1%	6.8%	-16.6%	-6.1%	-2.4%
MSCI EM Latin America Local	64,209.13	-6.3%	-2.6%	8.3%	7.7%	-6.3%	-5.9%	-9.6%
MSCI Emerging Markets Europe M	471.46	-2.7%	-1.5%	5.1%	6.4%	-4.6%	-3.6%	4.8%

Note: All data are as of 31 May 2016

Compiled by SMAM based on Bloomberg

Investment Outlook: Macro & Stock Market – Global & Asia Pacific

Outlook for Global Markets

- We expect the stock market will recover gradually in tandem with the growth of corporate earnings given the slow recovery of global economy and normalized valuation level.

Outlook for Asia Pacific Region

- Macro economy in most of Asian countries will show some recovery in 2016, but the momentum is not so strong. Although Chinese economy will continue to slow down gradually, however policy support is expected to avoid hard landing.
- The recovery of corporate earnings will be moderate towards 2016 as overall global economy stabilizes.
- Concerns for tighter liquidity conditions across Asia due to US rate hike continue, but it seems to be mostly priced in.
- Still many uncertainties in markets including US rate hike, Chinese economy, crude oil price and geopolitical issues, which can create high volatility in the near term, yet we consider the market will go up slightly in line with corporate earnings as these risk factors diminish or priced in.

Note: As of 27 May 2016

Source: SMAM

Investment Outlook: Macro & Stock Market – Asia Pacific by Market

	Outlook, Reason for OW/UW	1.Macro Trend				2.Stock Market		
		Politics	Macro	Interest rate / Inflation / Liquidity	External Account	Currency	Earnings Momentum	Valuation
Hong Kong	- Uncertainty from China continues. - Pressure for Asset price is eased but underlying economy is weak. - Attractive valuation with good corporate fundamentals.	Stable More focus on economy side.	× The pace of recovery is slower than expected. ○ Tightening policy for property is behind us.	Pressure for HIBOR is eased. / Inflation will be moderate.	CA surplus continues but it is narrowing.	Stable, pressure for weaker HKD is eased.	× Revision is weak, but momentum is improving.	○ Attractive
China	- Tough challenge towards New Normal. - We expect gradual slowdown of macro economy. Policy is less supportive. - Potential for A shares inclusion in MSCI and HK/SZ stock connect can be near term catalysts. - Booming property Mkt is a potential concern.	Stable, but becomes less clear.	Gradual slowdown is expected, however hard landing should be avoided. Structural rebalancing is a key challenge.	× Excessive accommodative monetary policy should be adjusted. / Int. rate will stay sideways / Near-term pressure for inflation. ↓	Surplus- but it is declining The degree of capital outflow is eased but it remains a big concern.	Downward bias is eased in the near term. The degree of RMB devaluation is a big issue across Asia.	× Revision is weak.	○ Very attractive in the long term, but it has come back to average since 2011.
Taiwan	- Slower economic growth due to weak export. - Inventory correction on IT is progressed. - Attractive valuation with high dividend yield.	Cross strait risk is increasing under DPP president.	× The pace of economic recovery is slower than expected.	First rate cut for last 6 years. Int. rate will be stable. / Inflation will be stable. / Liquidity is improving.	Surplus will expand	Stable / Likely to be appreciated if Mkt turns Risk-on mode.	× Revision is weak.	○ Attractive
Korea	- Still in the transition. Structural re-rating will not happen soon. - High level of inventories and slow adjustments - Weaker KRW supports exporters.	Less stable as President Park's party loses majority	× Growth outlook is weakening due to subdued export environment in China.	○ Easing bias continues / Inflation will be stable / Liquidity is improving.	Surplus will remain high	Downward bias in the near term. BOK raised concerns for too much weakening of KRW.	Revision is weak, but it seems to be bottomed out. ↑	Attractive. However there is a reason for the discount.
Singapore	- Stable Mkt and policy headwind is easing. - Weak economy will continue due to slowdown of Chinese economy. - Attractive valuation.	The landslide victory of PAP should create political stability.	× Slower economic growth is expected due to slowdown of Chinese economy.	○ The MAS surprised by easing policy / SIBOR rate is stabilized ; Inflation is stable. / M2 growth rate is weakening.	High level of Trade & CA Surplus will continue.	Downward pressure due to easing policy by MAS / Likely to be appreciated if Mkt turns Risk-on mode.	× Revision is weak, but momentum is bottomed out.	Fair on PER, attractive on PBR
Malaysia	- Mounting uncertainty in both politics and economy. - Investor's sentiment is improving.	× 1MDB has become a risk factor again. Political turmoil is still there.	× GDP growth is expected to slow in 2016. However the government can brake downward pressure by off-budget disbursement.	Policy Rate will be flat. / Inflation will mildly pick up. / X M3 growth rate is weakening.	Surplus will be narrowed due to lower crude oil price. However recent hike of palm oil should be positive	Stabilizing under little concern for US rate hike. Expected bottom out of oil price shall help MYR appreciation.	× Revision is weak.	Fair (Rich on PER, but fair on PBR)
Thailand	- Economy is expected to bottom out. - Investor's sentiment is improving.	Military gov should continue at least until 2017. Strong leadership of deputy prime minister Somkid.	Economy is expected to bottom out supported by fiscal stimulus. However sluggish auto industry and drought should cause the economic momentum to slow in 2016.	○ Rate cut is possible, but we expect it to suspend in 4Q16 due to economy momentum in China./ Inflation will be stable. M2 growth rate should remain low.	Surplus will continue.	Stabilizing under little concern for US rate hike.	× Revision is still weak, but its momentum is improving.	Fair (Rich on PER, but fair on PBR)
Indonesia	- Solid economic growth supported by public investment. - IDR is stabilizing. The pace of US rate hike should be slow. - Investor's sentiment is improving.	Political situation is stabilized as Golkar joins ruling coalition	○ Economy is expected to recover supported by lower gasoline price and public investment.	Rate cut is expected to suspend following economic recovery. / Lower inflation due to lower gasoline price.	× CA deficit will gradually increase.	Downward pressure is easing, but risk of weak currency will continue.	× Revision is still weak, but its momentum is improving.	Fair (Rich on PER, but fair on PBR)
Philippines	- Still the bright spot. - Sustainability is key.	Stable. Duterte won the presidential election	○ Steady growth	Wait and See stance on monetary policy / Int. rate will be stable. / Inflation is stabilized by low oil price	Trade deficit will shrink. Current a/c surplus will expand.	Stabilizing under little concern for US rate hike.	Revision is weak but it is improving	Rich on PER, fair on PBR
India	- Overall macro fundamentals will improve given its strong policy supports. Low inflation is likely maintained. - Relatively immune to the situation of global macro but it is a consensus OW Mkt.	Potential of economic reform continues BJP is gaining momentum.	○ High Growth rate will continue driven by domestic consumption.	○ Wait and see stance for further rate cut / Inflationary pressure peaked out.	× Trade / CA deficit will gradually increase.	Stabilizing under little concern for US rate hike. Currency risk continues.	Revision has recovered from very weak level. ↑	Fair on historical level. Most expensive among AXJ.
Australia	Expect mild up-trend market, backed by improving domestic consumption and corporate earnings.	Stable	Mild recovery	Int. rate will be stable./Inflation stays lower than the target range.	Deficit, but it is improving	Downward bias	Revision is weak especially for Mining	
Vietnam	Steady upside can be expected supported by solid economic growth.	Step down of PM Dung is negative for reform	solid recovery	Lower interest rate environment / Benign Inflation	Trade / CA surplus will be narrowed.	Gradual depreciation	Improving	Within FV range.

Market Focus (i): Thailand – Neutral continued

【Summary】

We foresee a moderate recovery on expectation for accelerated infrastructure investments resulted from enforcing economic policy. Meanwhile, downside risks for the macro economy such as high household debt and a decline in farmers' income remain.

- ▣ We maintain a cautious stance to consumer related stocks as domestic demands would remain sluggish. However, negative impacts by the Bangkok bombing on tourism would be limited.
- ▣ For the banking sector, we are also aware of a rising trend of bad debts. In the short term, concerns would remain over the macro economy or potentially restrictive regulation on lending in response to growing individual debt. In the mid-term, however, the balance of loans outstanding is expected to stably increase supported by a rebound of the domestic economy.
- ▣ Selectively pick up attractive stocks from a mid and long-term perspective. Under strong leadership by Deputy PM Somkid, public investment is foreseen to recover so that we are positive for the related stocks.

Note: Compiled by SMAM as of 25 May 2016

Market Focus (ii): India – Overweight continued

【Summary】

We maintain OW stance on Indian equities. Considering the results of local election, expectation for Modi government's economic reform still remains. Improvement in macro fundamentals such as real economy and/or corporate earnings would be a driver to rising share prices.

- We keep an overweight stance for banks, which can benefit from policy management by Modi government, improvement in investor sentiment, and bottoming out of real economy. Especially, banks in private sector is expected to expand the market share in the mid- and long-term.
- From the medium term perspective, we would take notice of domestic demand stocks relating to preferential treatment to agriculture or expansion of the middle class.
- For IT sector, we maintain OW on expanding global demands and attractiveness of individual stocks. On the other hand, for pharmaceuticals sector, we need to be selective for pharma stocks as some firms are not compliant with US Food and Drug Administration guidelines. Yet some pharma stocks are undervalued in the mid to long term perspective.

Note: Compiled by SMAM as of 25 May 2016

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